



The Propagation of Local Credit Shocks Evidence from Hurricane Katrina

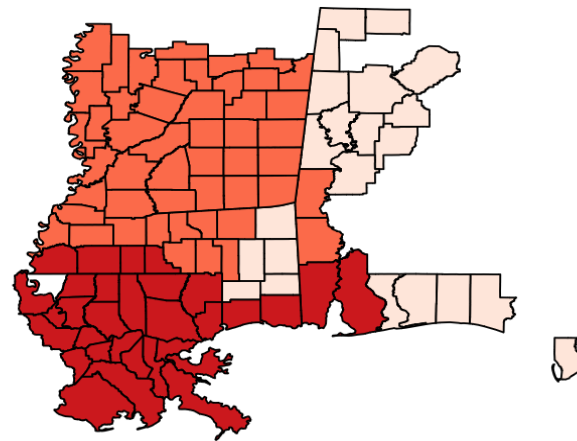
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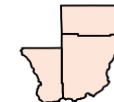
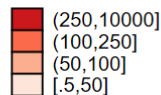


Did Katrina impact housing markets in the undamaged areas?

Katrina-related Property Damage

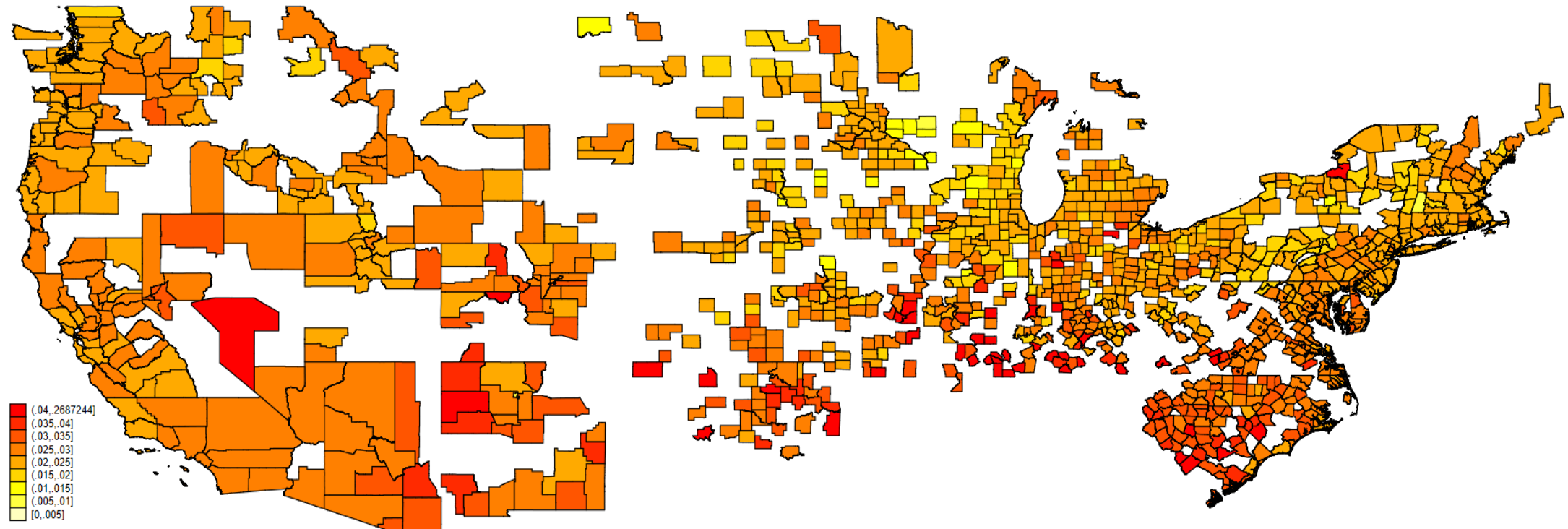


Property Damage in MN (2005)\$



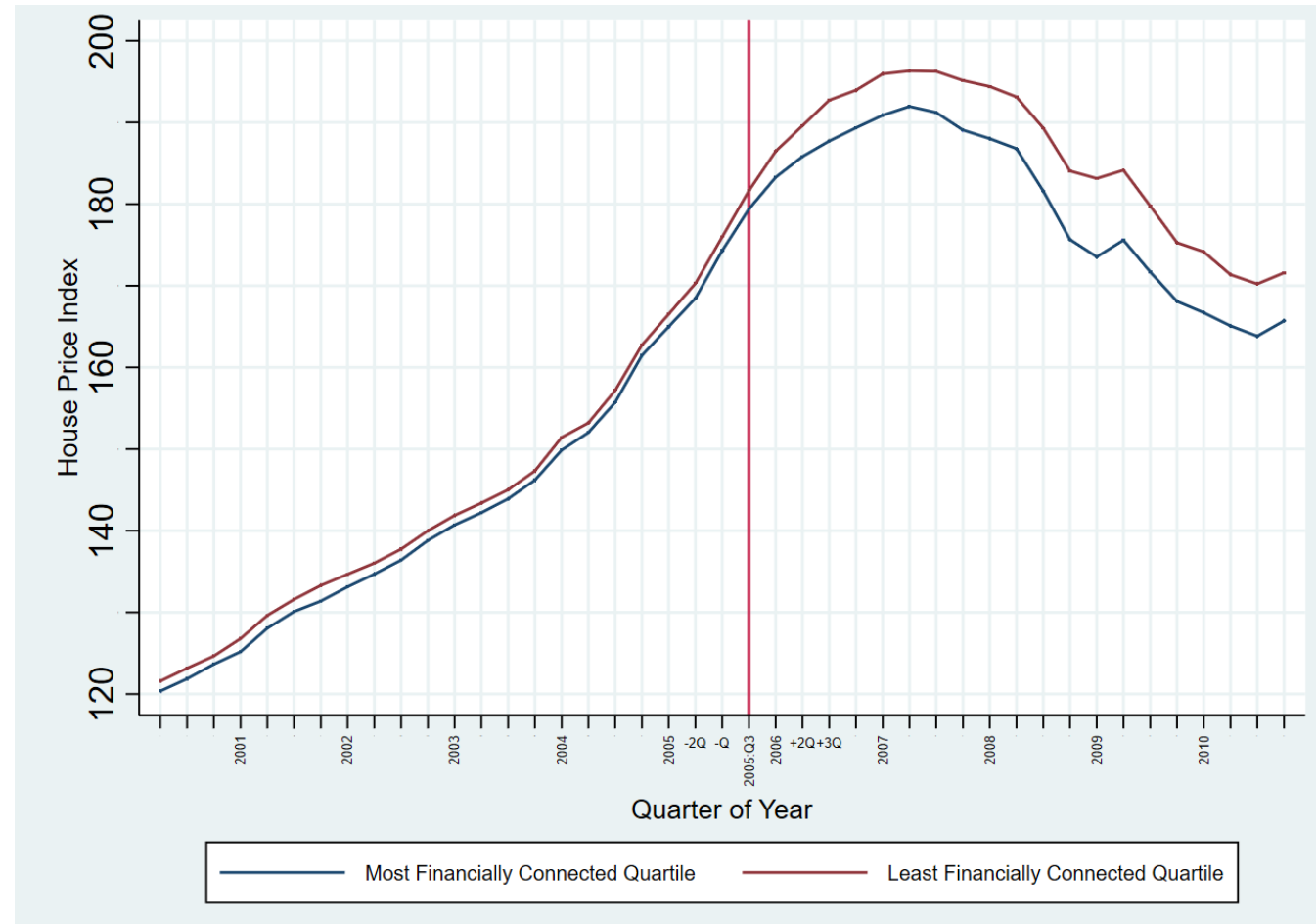


Financial Linkages to Katrina Areas





Housing prices in the financially connected CBSAs declined relative to the less connected ones





Causal Chain of Events

- A mortgage and housing boom occurred in Katrina-damaged areas following the storm (A surge in the number of building permits, housing stock, loan origination volumes, housing prices and loan acceptance rates).





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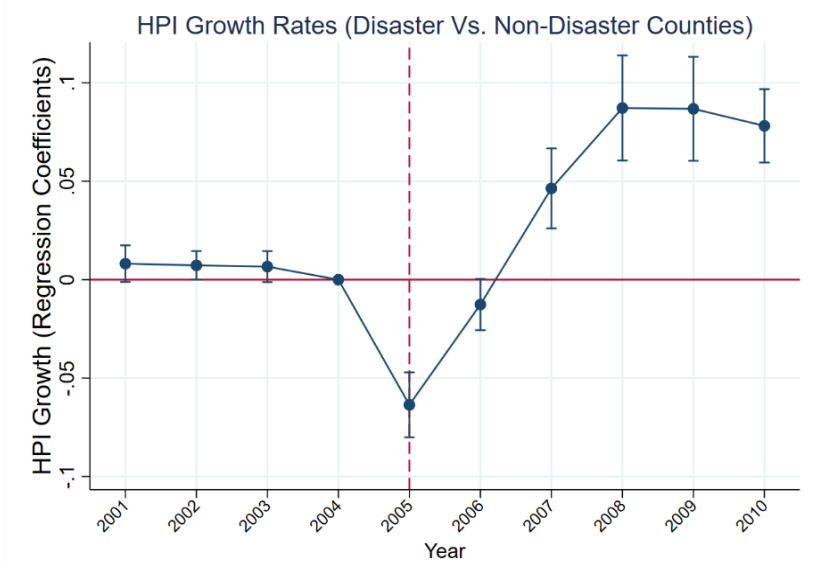
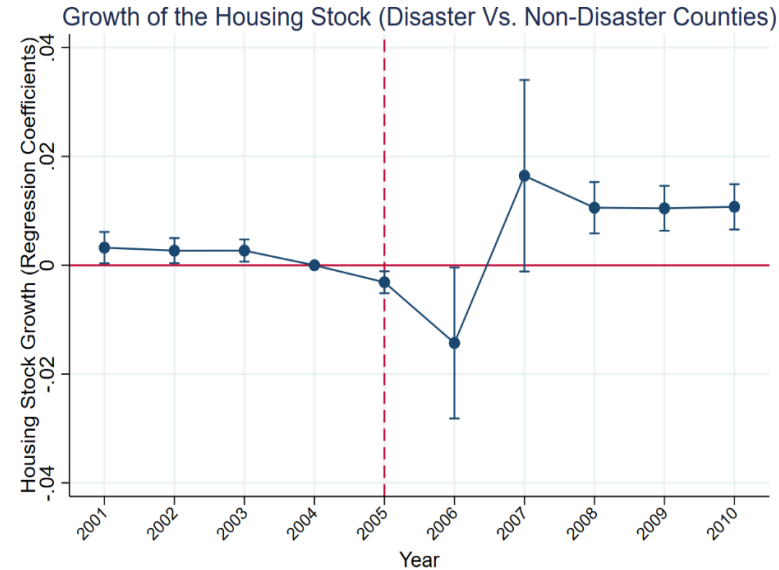
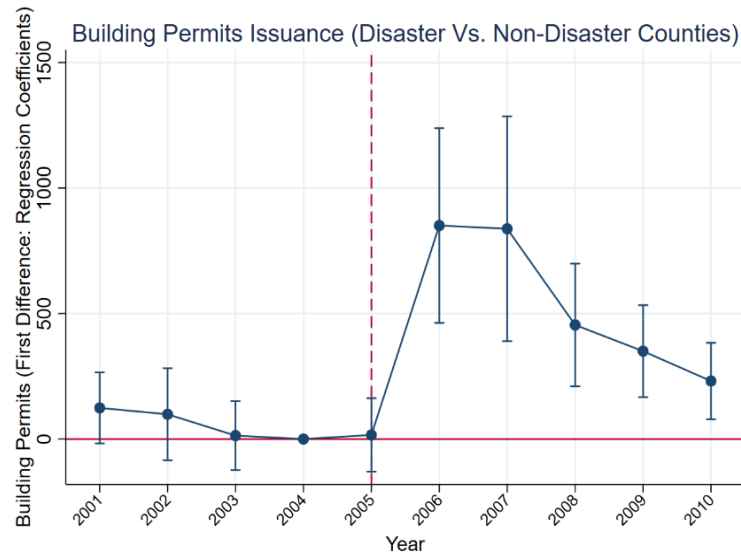
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- This contraction dampened housing prices and construction in the undamaged areas. These effects depend on undamaged markets' financial ties to Katrina-hit markets.



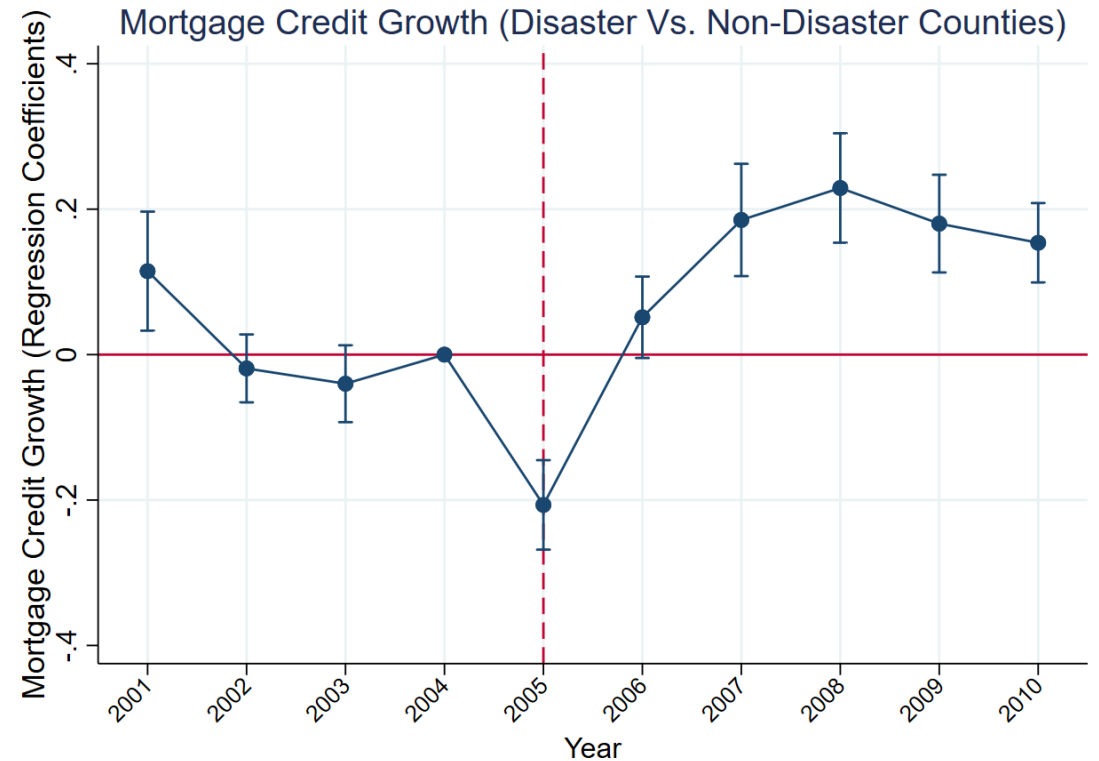
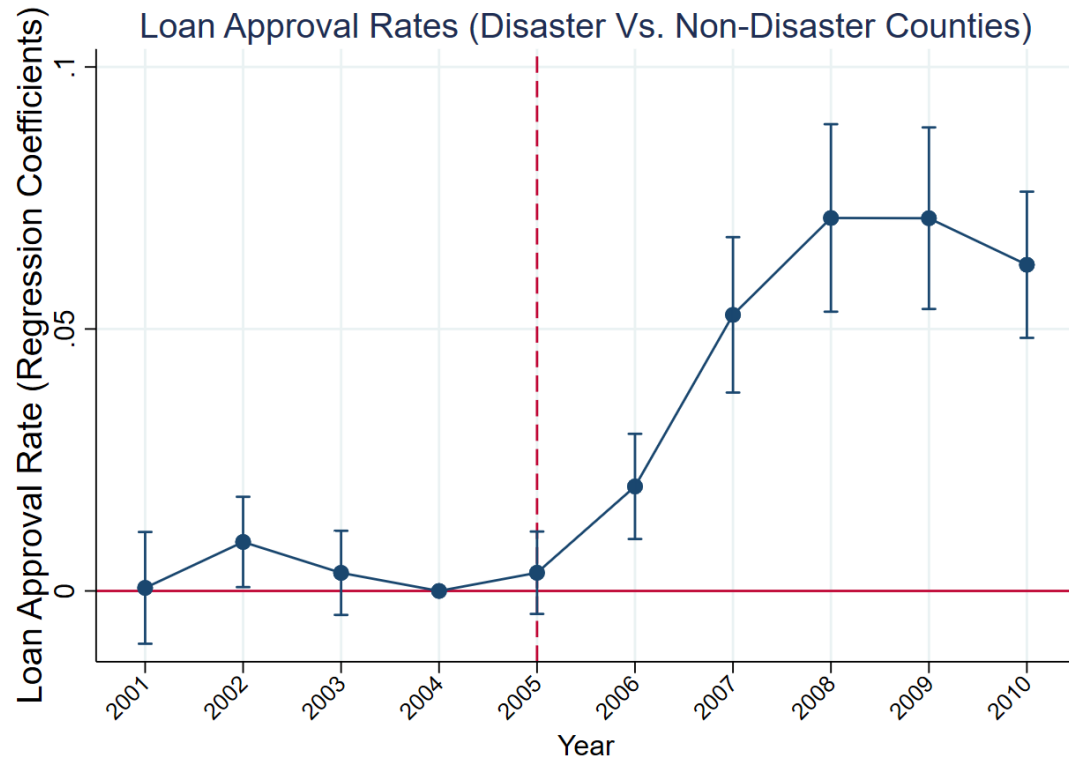


Booming Housing Markets in Disaster Areas



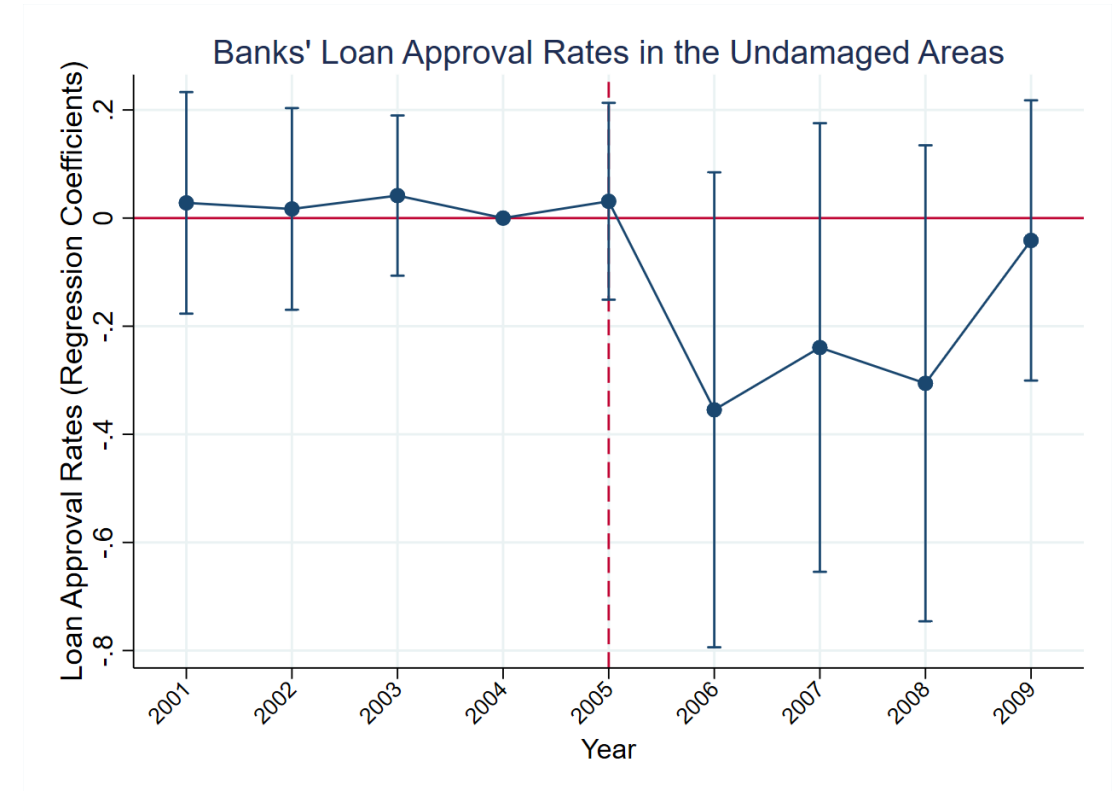
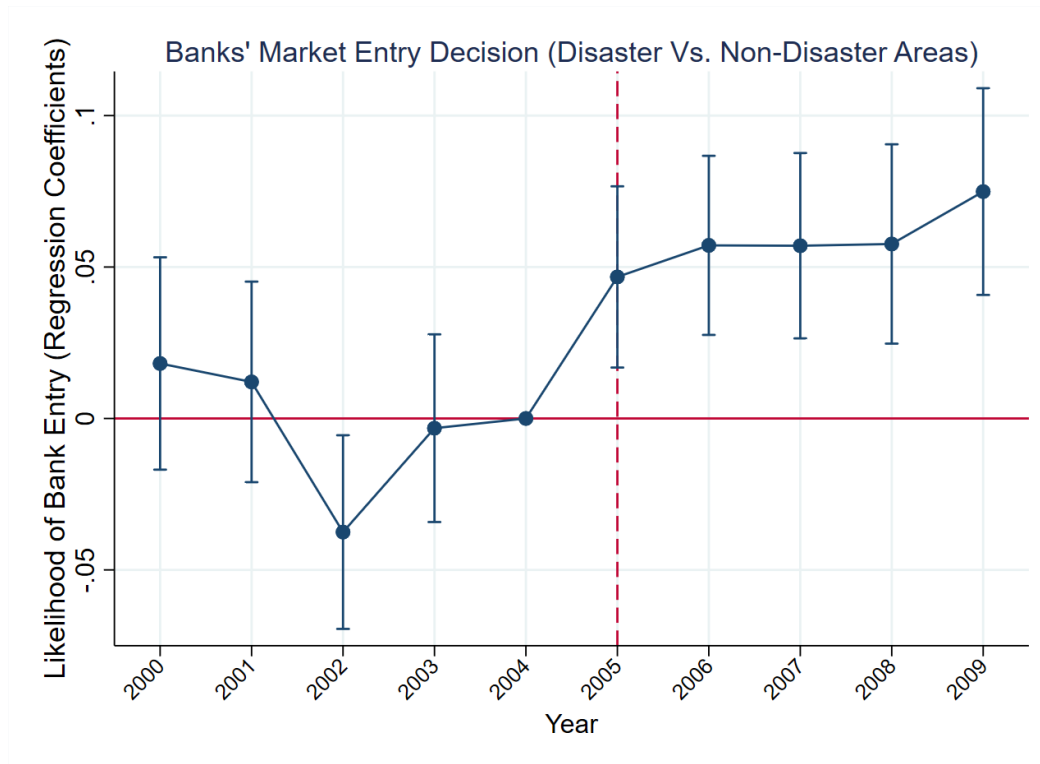


Booming Credit Markets in Disaster Areas





Banks' Re-allocation of Resources toward Disaster Areas





Policy Implications

- The effects of natural disasters propagate through banks' internal networks and can reach very distant markets.
- Community banks shield their local markets from external shocks.
- Banks' are financially constrained. I show that securitization did not fully alleviate these constraints. There was a surge in loan retention in disaster areas.
- Disasters are tragic events for the impacted communities. For banks, reconstruction efforts create business opportunities. Banks strategically re-allocate to seize these opportunities.





Learning from Bankers and Regulators

- If you are an outsider (to Katrina areas), did your bank enter disaster markets after the storm?
- If you are insider, were you able to maintain pre-storm loan supply in the undamaged regions?
- What policies can help extend credit to the impacted communities, ease banks' constraints and limit these spillovers on the undamaged areas?

I would welcome your comments or questions

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